



LAURA N. CHICK
INSPECTOR GENERAL

STATE OF CALIFORNIA
OFFICE OF THE INSPECTOR GENERAL
AMERICAN RECOVERY ACT FUNDS

Transmitted via e-mail

September 17, 2010

Mr. Poncho Guevara, Executive Director
Sacred Heart Community Service
1381 South First Street
San Jose, CA 95110

Dear Mr. Guevara:

Final Review Report—Sacred Heart Community Service, Review of the Homelessness Prevention and Rapid Re-Housing Program

The State of California, Office of the Inspector General (IG), American Recovery and Reinvestment Act Funds (ARRA) reviewed Sacred Heart Community Service's (Agency) ARRA funds received for the Homelessness Prevention and Rapid Re-Housing Program (HPRP) awarded by the Department of Housing and Community Development (DHCD).

The HPRP provides homelessness prevention assistance to families and individuals who are at risk of being homeless and rapid re-housing assistance to those who are homeless. Services provided are: short-term or medium-term rental assistance, security or utility deposits, utility payment assistance, and housing relocation and stabilization services, such as credit counseling, moving cost assistance, and case management.

The Agency's HPRP contract is a multi-agency contract. The Agency acts as the lead for the following partner agencies: Community Services Agency-Mountain View, Inn Vision-The Way Home, St. Joseph's Family Center, West Valley Community Services, and Community Technology Alliance. Additionally, separate from the State HPRP grant, the Agency administers two other HPRP grants from Santa Clara County (County) and the City of San Jose (City). The County and City received their HPRP grant directly from U.S. Department of Housing and Urban Development (HUD).

Scope

The Agency was awarded ARRA funds totaling \$1,599,998 by the DHCD. As of our review period, the Agency has received \$349,999 and reported \$52,181 in expenditures.

The IG conducted a review of ARRA funds received and expended for the period October 1, 2009 through March 31, 2010. The review's objectives were to determine if the Agency properly accounted for and used ARRA funds in accordance with ARRA requirements, applicable laws, and regulations.

The Agency's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and program requirements, as well as evaluating the efficiency and

effectiveness of the program. Unless identified during our review of ARRA funds, we did not assess the efficiency or effectiveness of program operations.

Methodology

The Agency's accounting records and supporting documents were reviewed to determine if ARRA funds were properly accounted for and expended. Costs allocated to HPRP programs, and the allocation method was reviewed for propriety and reasonableness. To determine whether revenues and expenditures complied with applicable laws and regulations, the following procedures were performed:

- Interviewed key personnel and reviewed applicable policies and procedures to gain an understanding of program-related internal controls.
- Reviewed participant files.
- Reviewed contracts between the Agency and subcontractors.
- Reviewed revenues to determine if they were properly recorded and supported.
- Selected a sample of expenditures reported to determine whether they were:
 - Allowable
 - Program related
 - Incurred within the reporting period
 - Adequately supported
 - Properly recorded

Summary of Review

Our review identified issues related to the Agency's administration of the HPRP grant funds that may place state ARRA funds at risk of misuse. Specifically, our review noted ineligible costs charged, overstatement of jobs, and internal control deficiencies.

Review Findings

Ineligible Costs of \$15,664 Charged to ARRA

During our review, we identified the following ineligible costs:

- Financial assistance of \$8,035 was provided for ineligible clients. Our review identified two clients who received rental assistance simultaneously through both Section 8 and HPRP, thus were ineligible for HPRP rental assistance. A third client's costs were incorrectly charged to the State HPRP grant because the residence's address was located in the area designated for the Agency's County HPRP grant.
- Duplicate rent payments in the amount of \$3,457 were paid by the Agency. For the month of February 2010, one client's rent was paid twice. During the month of December 2009, a separate duplicate payment was made for another client because the Agency did not properly identify duplicate check request forms submitted by partner agencies.
- The Agency paid \$175 in financial assistance costs that were not supported by adequate documentation: including an overpayment of \$90 in rent for three consecutive months and third

party fees of \$85. HUD's HPRP Eligibility Determination and Documentation Guidance specify that grantees and sub-recipients should verify and retain source documents for all HPRP expenses.

- Ineligible personnel costs of \$3,997 were paid for five positions not authorized under the Homeless Prevention Program budget. HPRP funds may only be used to pay costs related to eligible budget activity categories included in the "Approved Budget."

Although \$15,664 may not seem like a large dollar amount, when compared to \$128,044 (\$52,181 in reported expenditures and \$75,863 unreported expenditures) in total expenditures, this means 12% of ARRA funds being expended are ineligible.

Agency Overstated Jobs Created

For the period ended December 31, 2009, the Agency reported one position as the number of jobs created. However, our review noted that no personnel costs were reported for the same quarter and therefore, no jobs should have been reported.

The Agency reported 4.48 jobs created for the period ended March 31, 2010. However, based on 1G staff computation, the Agency should have reported only 1.61 jobs created.

Internal Control Deficiencies Identified

Control deficiencies identified during our review did not ensure appropriate transparency and accountability of ARRA funds as indicated below:

- The Agency authorized St. Joseph's Family Center (SJFC), a partner agency, to issue financial assistance payments for their HPRP clients beginning January 2010. This action resulted in inadequate segregation of duties over cash disbursements at SJFC. The SJFC Executive Director authorized disbursements, prepared and printed checks, signed checks, and had unrestricted access to blank check stock. Inadequate segregation of duties increases the potential for fraud and misuse of ARRA funds.
- Timekeeping procedures do not properly account for staff time worked under HPRP. For Agency staff, the Agency has implemented timesheet codes for each HPRP budget activity except for Rapid Re-Housing, Housing Relocation and Stabilization. Further, the Agency does not require that partner agencies separately account for staff time worked under each HPRP budget activity and under each HPRP grant (State, County, or City). Lack of adequate procedures to separately account for time spent on multiple grants increases the risk of duplicate billing and ineligible personnel expenditures being paid with ARRA funds.

Conclusion

In order to further efforts to assure transparency and accountability of ARRA funds and minimize potential for misuse of HPRP funding, the Agency should work to correct the issues identified above.

Further, as the lead agency for a multi-agency contract, the Agency is responsible to ensure that partner agencies meet program requirements. The Agency should work with DHCD to initiate appropriate corrective actions regarding the ineligible costs identified.

The Agency's response has been included in this report. In accordance with the IG's policy of increased transparency, the final report will be placed on our website, <http://www.inspectorgeneral.ca.gov>.

We appreciate the assistance and cooperation of DHCD, the Agency, and the partner agencies. If you have any questions regarding this report, please contact Angie Williams, Director of Accountability, at (916) 324-6662.

Sincerely,

A handwritten signature in black ink that reads "Laura N. Chick". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

LAURA N. CHICK
California Inspector General

cc: Ms. Erin Stanton, Director of Administration, Sacred Heart Community Service
Ms. Lynn Jacobs, Director, Department of Housing and Community Development
Mr. Chris Westlake, Deputy Director, Division of Financial Assistance, Department of Housing and Community Development

The State of California, Office of the Inspector General (IG), American Recovery and Reinvestment Act (ARRA) Funds issued a draft review report to the Sacred Heart Community Service (Agency) on August 13, 2010. We received the Agency's response to that report on August 19, 2010.

Below is our review of their response.

1. Unreported Expenditures of \$76,145

After further review, this finding was removed in the final review report.

2. Ineligible Costs of \$15,664 Charged to ARRA

c. Duplicate rent payments

During the IG's review, the Agency could not provide documentation to substantiate that the landlords who received these payments properly credited the amounts towards the clients' next month's rent. Further, an e-mailed received July 7, 2010 from the Agency's HPRP program manager in response to the IG's inquiry about one of the duplicate payments stated that because the Agency's audit of the file was still in progress, specific information about whether the payment was a duplicate was not yet available.

c. Ineligible personnel costs

Four out of the five positions were ineligible, not because of the staff member's job titles, but because the Agency's "Approved Budget" did not have an approved amount for that specific budget category. Had the Agency claimed these staff's personnel costs in the appropriate budget activity, they would have been allowable.

4. Internal Control Deficiencies Identified

b. Timekeeping Procedures

The identified internal control deficiency specifically relates to the Agency not requiring that partner agencies separately account for staff time worked under each HPRP budget activity and under each HPRP grant (State, County, or City). Lack of adequate procedures to separately account for time spent on multiple grants increases the risk of duplicate billing and ineligible personnel expenditures being paid with ARRA funds.

5. Improper Accounting for Interest Earned

After further review, this finding was removed in the final review report.

We appreciate the Agency's initiative and willingness to take corrective action. We want to emphasize the importance of maintaining adequate supporting documentation to substantiate the eligibility of HPRP clients so that an outside entity could come to the same conclusions as the Agency.